FARMERS' NEWSLETTER

Cotton

August 80/C-13

Smaller U.S. cotton supplies and weaker demand are the key features of the marketing year which began August 1. But even with the weaker demand, supplies are likely to be extremely tight.

Based on August 1 conditions, U.S. cotton output for 1980/81 may total 12.8 million bales--12 percent below last season's large 14.6-million-bale crop.

But there is still a great deal of uncertainty about the crop since farmers had harvested less than 2 percent of the forecasted production by August 1. Based on historical differences between August forecasts and final estimates, the chances are 2 out of 3 that output will total between 11.8 and 13.8 million bales.

Production is expected to drop sharply in Texas and Oklahoma where extreme heat and drought have reduced yields and caused more abandonment of planted acreage than usual. Yields are also well below last season's exceptionally high levels in the major producing States of California, Arkansas, Louisiana, and Mississippi. Overall, average yield is forecast at 461 pounds per harvested acre, 87 pounds below last year's record-high 548.

Here's why this forecast is important to you:

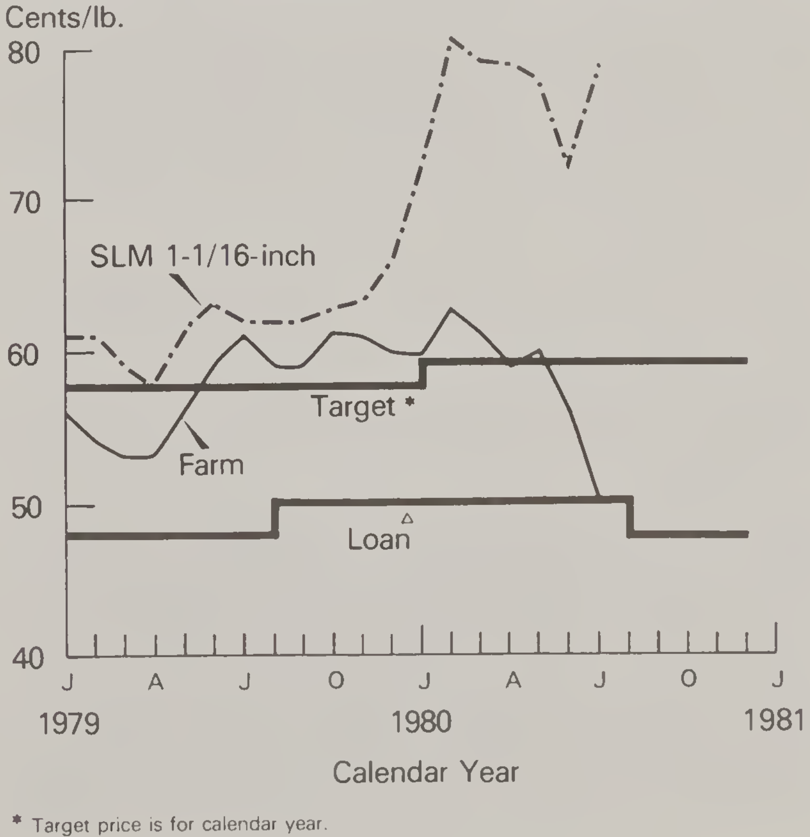
- As you know, the size of the U.S. cotton crop, more often than not, is the single most important factor affecting cotton prices.

- Cotton yields have a direct bearing on your per pound production costs.

- You might be eligible for disaster payments on your upland cotton, depending on a comparison of your actual yields with the program payment yield for your farm--more about this later.

Anticipating future price trends is the key to successfully marketing your 1980 crop. While the USDA is prohibited by law from forecasting cotton prices, we can analyze potential changes in supply, mill use, and export demand--the chief factors in determining market prices.

MONTHLY COTTON PRICES VOLATILE



* Target price is for calendar year.
△ SLM 1-1/16 inch at average location; for year beginning August 1.

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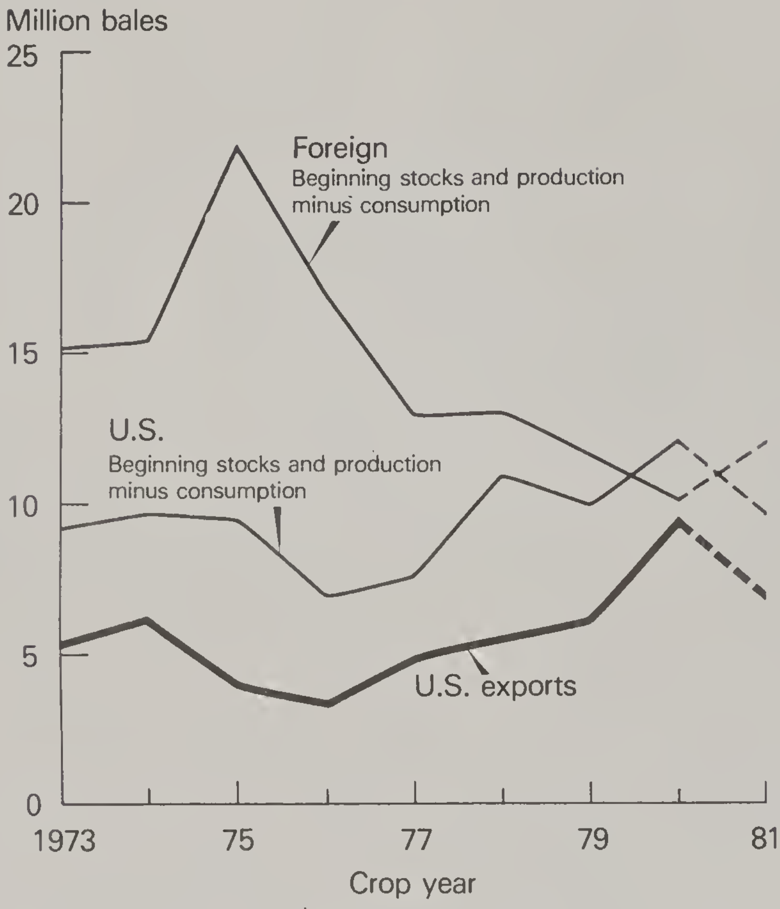
The next cotton newsletter is scheduled for late October.

U.S. 1980/81 COTTON EXPORT PROSPECTS DIM



1980/81 projected.

Less Demand Seen

Both raw cotton exports and domestic mill use appear headed for a fairly sharp drop this season. Disappearance may total around 12.9 million bales, compared with last seasons's unusually high 15.9 million.

Historically, changes in cotton exports have been the reason for much of the year-to-year changes in disappearance. And this season should be no exception. Exports are forecast to be about 2.6 million bales less than last year's 9.4 million. What's behind the drop? Blame it on increased cotton production in foreign countries, sluggish world textile activity, and a smaller U.S. crop.

The difference between foreign cotton supplies--stocks plus production--and foreign consumption is a good barometer of U.S. cotton exports. As this difference goes up, U.S. exports generally go down. Last year, the difference was 10 million bales; this season, it is forecast at 11.7 million, indicating a decline in our export potential. At the same time, U.S. cotton supplies available for export have declined about 2-1/2 million bales from 1979/80.

So U.S. export prospects rely heavily on crop developments in major producing nations as well as economic conditions. Also, keep your eye on U.S. cotton sales to China and the USSR's export sales. China was our best customer last season--taking 2.2 million bales. The USSR, a major exporter, increased their stocks last year, and a record crop is expected this year.

U.S. textile mills will use about 6 million bales of cotton in 1980/81,

U.S. COTTON PRODUCTION AND USE IN CLOSE BALANCE

Cotton: Upland and extra long staple	1978/79	1979/80 Estimated	1980/81 Projected:	1980/81 Prob. variab.[1]
		Million acres		
Area				
Planted	13.4	13.9	14.4	
Harvested	12.4	12.8	13.3	
		Pounds		
Yield per harvested acre . . .	421	548	461	
		Million 480-lb. bales		
Beginning stocks	5.3	4.0	2.8	+0.2 to -0.2
Production	10.9	14.6	12.8	+1.0 to -1.0
Supply, total . . .	16.2	18.6	15.7	+1.0 to -1.0
Mill use	6.4	6.5	6.0	+0.5 to -0.5
Exports	6.2	9.4	6.8	+0.5 to -1.0
Use, total	12.5	15.9	12.9	+1.0 to -1.5
Difference unaccounted . . .	.3	.1	.1	
Ending stocks . . .	4.0	2.8	2.9	+1.0 to -0.5
Average farm price ($/lb.) . . .	58.4	[2] 62.6	([3])	

[1] Chances are about 2 out of 3 that the outcome will fall within the indicated range. [2] Weighted average price for the first 8 months of the season; not a forecast for 1979/80. [3] USDA is prohibited from publishing cotton price projections. Note: Totals may not add due to rounding.

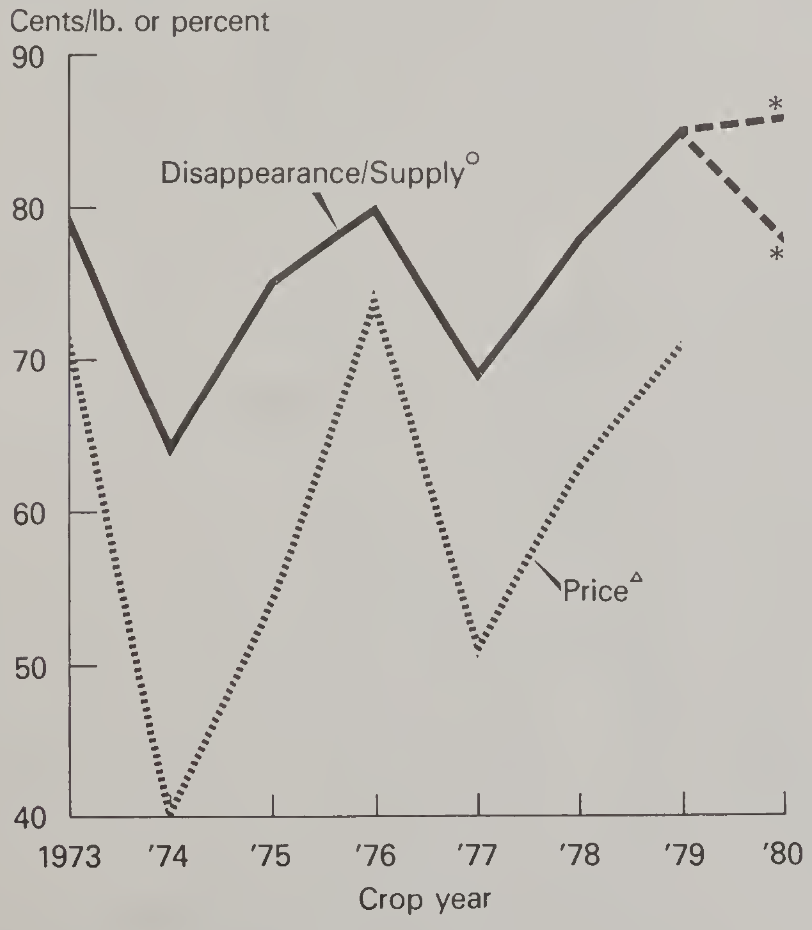
down from 6.5 million last season. The drop is due to weak economic activity and tight supplies. Although economic conditions were on the downswing last season, too, mill use was maintained by record exports of cotton textiles, aided by the weakness of the dollar against major foreign currencies.

Supplies To Remain Tight

So there may well be a fairly close balance between U.S. cotton output and use in 1981--leaving carryover stocks around the beginning level of 2.8 million bales. That's not much, so prices are likely to fluctuate rapidly with changes in production prospects during coming weeks, or until the new crop comes on in volume.

Contracting a portion of your crop on price upswings during this time may be prudent. By July 31, around 24 percent of this year's acreage had been contracted--at an estimated average price of 70 to 75 cents a pound.

COTTON PRICES BASICALLY STRONG



△Average price of SLM 1-1/16" cotton, October-March.
○Mill use + exports divided by beginning stocks + production; estimated for 1979/80.
*Likely range as of August 1, 1980. Chances are 2 out of 3 that the actual ratio will fall within this range.

COST OF PRODUCING UPLAND COTTON CLIMBS[1]

Cost item	1978	1979[2]	1980[3]
	Dollars/planted acre		
Variable	172	200	232
Machinery ownership	56	68	84
General farm overhead	8	9	11
Management	24	28	33
Total[4]	260	305	359
Yield/planted acre (lbs.)	390	510	427
Cost/pound (cents)	67	60	84
Value of seed (cents)	9	10	10
Net cost/lb. (cents)	58	50	74

[1] Excludes land. [2] Preliminary. [3] Projected. [4] Totals may not add due to rounding.

Cotton Production Costs Climb

The cost of producing a pound of upland cotton is up sharply this year due to increases in per acre costs and expected lower yields. Based on the August 1 yield forecast, Beltwide production costs (excluding land charges, but including ginning costs) may average about 84 cents a pound, up from 60 cents in 1979.

Net costs--adjusted for cottonseed value--are forecast around 74 cents a pound, compared with 50 cents in 1979. If it's any consolation, this seasons's higher costs will boost the upland cotton target price for 1981.

If Disaster Strikes . . .

The Agricultural Adjustment Act of 1980 extended the disaster payment program for 1980/81 crops. The upland cotton disaster payment is 1/3 the target price. Since the target price is 58.4 cents a pound, the disaster payment works out to 19.5 cents.

If drought or some other natural disaster reduces your yield this season,

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you can get disaster payments on any production below 75 percent of your farm payment yield. For example, if your payment yield is 300 pounds per harvested acre, and your actual yield is 100 pounds per harvested acre, your disaster payments would be figured like this:

[(300 x .75) - 100] x $0.195 = $24.38

You would receive $24.38 per acre planted for harvest.

. . . And You Plow Your Crop Under

If your cotton is severely damaged, you may question whether it is worth harvesting. Before you decide, have the local ASCS office appraise the cotton for its potential yield--contrary to some reports, the yield is not automatically considered to be zero for a field that is not harvested. Even if the cotton is not harvested, its potential yield will be deducted from your disaster payment.

Here is an example using the following assumptions:

• Farm payment yield...	300 lbs./acre
• 75 percent of farm payment yield......	225 lbs./acre
• Potential yield..............	25 lbs./acre
• Value of harvested lint and seed.......	$20/acre
• Harvesting plus ginning costs.......	$25/acre
• Disaster payment rate................	$0.195/lb.

Whether the cotton is harvested or not, disaster payments will be:

(225 lbs. - 25 lbs.) x $0.195 = $39/acre

If you harvest the cotton, net returns above harvesting and ginning costs are:

$39 + $20 - $25 = $34/acre.

If the cotton is NOT harvested, net returns are $39 per acre--the disaster payment.

In this example, it does not pay to harvest, because the market value of the lint and seed fails to cover harvesting and ginning costs. Since disaster payments are the same whether the cotton is harvested or not, they do not affect the decision as is often thought to be the case.